



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE

Held in the Conference Hall, Brent Civic Centre on Wednesday 05 October 2022 at 6.00 pm

PRESENT: Councillor Johnson (Chair), Councillor Mitchell (Vice-Chair) and Councillors Choudry, Hack, Kansagra, Miller and Dar.

Also present: David Ewart (Independent Chair – Pension Board) and Elizabeth Bankole (Independent Co-Opted Member).

1. **Declarations of personal and prejudicial interests**

The following interests were declared at the meeting:

- Councillor Johnson (Chair) declared a personal interest as an ex local government employee and a member of the Local Government Pension Scheme.

2. **Minutes of the previous meeting**

RESOLVED: That the minutes of the previous meeting held on 27 June 2022 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations (if any)**

Councillor Johnson (as Chair) advised that he had agreed to receive a deputation at the meeting requested by Simon Erskine on behalf of Divest Brent. The Chair welcomed Mr Erskine to the meeting who advised that the deputation was seeking to support the move away from fossil fuel investments as part of a diversification strategy and Responsible Investment Policy by Brent's Pension Fund.

The Committee were informed that the International Energy Agency had also supported this approach and the move towards ceasing investment in fossil fuels and exploration in favour of investment in renewable energy, which it was highlighted continued to look positive.

In addition to the environmental risk that investments in fossil fuels posed, attention was also drawn to the associated financial risks identified, with specific reference to recent coal based investments by other Pension Funds. The Committee were also made aware of the action being taken by a number of other boroughs to divest their Pension Funds, including the disposal of fossil fuel investments and wider support being made available in this process.

Having concluded the deputation, the Chair thanked Simon Erskine for his contribution and drew attention to the progress update also included on the agenda in relation to the work being undertaken by Brent's Pension Fund to progress its net zero transition road map & Responsible Investment (RI) Policy on which the issues raised as part of the deputation could be considered in more detail.

5. Investment Monitoring Report - Q2 2022

Kenneth Taylor (Hymans Robertson LLP) introduced the report, which outlined the performance of the Brent Pension Fund during Q2 2022.

In presenting the report, the following were highlighted as key strategic points:

- In view of recent market volatility, the Committee were reassured that public sector pension schemes had not been as adversely impacted compared to private sector schemes. Members were advised that this was as a result of the longer-term scope of public sector investments meaning the Fund was better protected from short-term economic conditions.
- A high-level summary of the performance of the Fund was then presented to the Committee, with the key points highlighted below:
 - The Fund had posted negative returns over the quarter, ending the period with a valuation of £1,054.3m, down from £1,127.6m at the end of Q1 2022. This remained due to a number of ongoing global factors and market volatility as a result of the challenging economic position, rising inflation and interest rates.
 - The majority of asset classes had struggled in Q2 2022 amidst such a challenging environment. Index-tracking mandates with LGIM (global equities) and BlackRock (gilts) contributed heavily to the negative absolute return whilst the LCIV Baillie Gifford multi-asset fund, the LCIV emerging markets fund and the LCIV multiasset credit (MAC) fund all drove relative underperformance versus the benchmark.
 - A positive performer was the Fund's property investment with Fidelity although at c1.5% of assets this had little offsetting effect on the overall performance.
- In Q3 2022 the Fund would seek to complete planned investment in the BlackRock Low Carbon equity fund whilst continuing to explore attractive secondary market opportunities within the property space consistent with the decision taken at the October 2021 Committee meeting.
- Regarding the Fund's asset allocations, it was confirmed the Fund remained broadly in line with the interim and long-term target allocations for growth and cash.

An overview was then provided in relation to manager performance of the various funds, with the following noted:

- Members were advised that total Fund return was negative during the current monitoring period on both an absolute and relative basis. This had resulted in performance over the 12 month period falling slightly behind benchmark

- although the Sub-Committee was advised that relative performance over a 3 year period remained positive.
- The main issue highlighted in relation to performance over the second quarter of 2022 was LGIM's Global Equity Fund, given its sizeable allocation of Fund assets and unfavourable return in both absolute and relative terms.
 - It was noted that UK equity markets (despite a negative return) had continued to outperform global markets with Capital Dynamics Private Equity mandate as the only positive performer in terms of growth assets. Whilst returns achieved by Ruffer remained strong those being achieved by Ballie Gifford had fallen behind in relative terms. It was noted, however, noted that the Ruffer Multi Asset Fund had adopted a more defensive position to deal with market volatility, which was important for the Fund, to ensure diversification of assets
 - The diversifying nature of the LCIV and Alinda Infrastructure funds had meant that these sub-funds contributed positively over the quarter.
 - A new traffic light system has been introduced to review the performance of fund managers, which reflected the long-term performance of each mandate. The only manager rated as 'red' (significant underperformance) had been the Capital Dynamics Infrastructure Fund, although it was noted that the fund only comprised 0.7% of Brent's Pension Fund, so the impact was minimal.

The Chair thanked Hymans Robertson LLP for their presentation and members were then invited to ask questions, with the responses summarised below:

- Clarification was requested regarding the absence of Responsible Investment (RI) ratings for some fund managers. The Committee were advised that, for resource reasons, a rating was not given to managers whose assets only comprised a small percentage of the overall Fund. It was also noted that LCIV were responsible for rating their own funds.
- The Committee were keen to progress discussions around the use of bond investments, in order to reach the required investment target.
- Concerns were raised relating to the performance rating and carbon output of the LCIV Baillie Gifford Multi Asset Fund. The Committee were advised that the performance of Baillie Gifford's investments had been adversely impacted by the rise in interest rates and a more "risk based" approach, resulting in more cyclical returns being achieved. Expected timescales for more positive returns could not be given at this stage. On carbon output, members were advised that Baillie Gifford valued engagement, opting to influence high carbon companies to change their practices. The possibility of influencing LCIV to switch to Baillie Gifford's lower carbon alternative fund was put forward as a potential action.
- The Committee noted that BlackRock gilts were also currently underperforming due to rising interest rates.
- Regarding property class investments, the Committee were advised that an LCIV investment recommendation was due to be finalised in early 2023. It was also noted that the monitoring report covered the period to the end of June 2022 and as a result, did not reflect the property holding actioned in July 2022. This would be included as part of the next Investment Monitoring update for the next Sub-Committee.

Members welcomed the update provided and with no further issues raised thanked Hymans Robertson LLP for their presentation. It was **RESOLVED** to note the report.

6. **Net Zero Roadmap Update and Responsible Investment Policy**

Sawan Shah (Senior Finance Analyst, Brent Council) introduced the report, which updated the Committee on the Fund's net zero transition road map, Responsible Investment (RI) policy and the LGPS Consultation on Governance and reporting of climate change risks.

In considering the report the Committee were advised of the increasing pressure from various stakeholders to ensure that Environmental, Social and Governance (ESG) issues were considered in the course of managing the fund and in its investment decision making. As a result the Fund's investment advisors Hymans Robertson had updated the Fund's Responsible Investment Policy (set out in Appendix 1 of the report) which formalised the Fund's RI beliefs, principles and approach. The key updates proposed for Brent's RI policy were as follows:

- A further development of the Fund's environmental, social and governance (ESG) related beliefs, setting out the actions being taken to understand and manage ESG issues for the benefit of Fund members and other stakeholders.
- Considering the use of active management over index-tracking approaches where an active manager could be expected to provide materially improved ESG characteristics.
- Considering opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable.

The Committee were also informed of the steps being taken by the Fund in relation to RI, which were summarised as follows:

- Integrating the consideration of ESG issues throughout the investment decision-making process.
- Reviewing an investment manager's RI policy when appointing a new investment manager or allocating money to a new fund.
- Monitoring the Fund's managers on an ongoing basis from an ESG perspective.
- Asking the Fund's investment advisers to highlight opportunities to invest in responsible investment strategies.
- Ensuring that where an investment manager did not meet the expectations within the policy, officers would engage with the respective stakeholders to encourage improvements.
- Continuing to review London CIV's RI policy to ensure that its strategies and beliefs were still aligned with the Fund's.
- An ongoing commitment to actively exercising ownership rights attached to the Fund's investments. Voting rights had been delegated to the investment managers with the objective of preserving and enhancing long-term shareholder value.

Regarding the net-zero transition roadmap, Kenneth Taylor (Hymans Robertson LLP) provided a more detailed overview on the progress to date, with the key points as follows:

- A commitment of £50m in an infrastructure fund through London's asset pool, the London CIV, with a significant renewable component agreed in 2019. This investment was currently being built up with £23.7m invested by 30th June 2022.
- The Fund had also agreed investment in a new low carbon passive equity tracker (BlackRock ACS World Low Carbon Equity Tracker). An initial allocation of £15m had been deployed with further allocations also agreed and due to be made shortly.
- The Fund had entered into the London CIV Private Debt fund with a £50m commitment in 2021. The underlying managers (Churchill/Pemberton) were required to show a clear commitment to integrating ESG at the fund level and the investment process as part of the evaluation criteria. As the fund was currently being built up it was, however, noted that full investment would require a number of years prior to it being fully invested.
- The Fund was a member of the Local Authority Pension Fund Forum (LAPFF), a collaboration group between LGPS Funds. Membership of LAPFF allowed the Fund, along with other local government funds, to engage with large global firms, with climate change and the transition to a low carbon economy one of the individual engagement streams that LAPFF dealt with.
- The Fund has introduced carbon metrics reporting into quarterly performance reports providing the Weighted Average Carbon Intensity (WACI), fossil fuel exposure and carbon intensity for the majority of the Fund's assets. The Fund would continue to review and refine metrics as the range and quality of data evolved.
- The Fund would continue to review its growth holdings to identify options to move towards net zero with a view to presenting further recommendations to the Committee in February 2023. As an example, it was noted that the table in section 3.17 of the agenda identified potential targets for further consideration from the London CIV and the Fund's existing low carbon equity holding through BlackRock. Alternative options through Legal and General, with whom the Fund's main equity mandates were held, would also be considered.

The Committee were then notified of the LGPS Consultation on Governance and reporting of climate change risks, with members advised that:

- The consultation was seeking views on government proposals to require administering authorities of the Local Government Pension Scheme (LGPS) to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities.
- It was proposed that LGPS administering authorities would calculate the carbon footprint of their assets and assess how the value of each fund's assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement.

- Administering authorities would be required to publish a Climate Risk Report annually by 1 December. The first Climate Risk Report would be due in December 2024.

Members were advised that the consultation was due to last for 12 weeks from 1 September 2022 to 24 November 2022 with officers, in consultation with the Fund's advisors, intending to respond on behalf of the Fund.

The Chair thanked officers and Hymans Robertson for their presentation, and members were then invited to ask questions, with the responses summarised below:

- The Committee sought clarification on the statement "ongoing engagement is preferable to divestment". Hymans Robertson advised the Committee that, in their view, engagement should come before divestment. It was stressed that engagement was a useful tool in moving towards net zero through influencing organisational change. If companies did not deliver on climate targets, divestment could then be used as a sanction. It was agreed that examples of successful engagement would be useful for future meetings with further clarification to be included as part of future reports regarding the statement, in response to the concerns expressed.
- The Committee were informed that the models underpinning climate scenario analysis on actuarial evaluations were available and could be provided on request.
- The Committee agreed that a future meeting with LCIV and fund managers would be useful to discuss net zero targets and low carbon investments, which officers advised they would look to progress.
- Regarding the possibility of meeting the 2030 net zero target, the Committee were advised that whilst challenging, the Fund had the capital to invest in renewable energy and similar investments, which provided a lever despite unfavourable economic conditions.

As no further issues were raised, the Sub Committee again welcomed the update provided and **RESOLVED** to note and endorse the update on the net zero transition roadmap, updated Responsible Investment Policy and LGPS Consultation on Governance and reporting of climate change risks.

7. **Brent Pension Fund: Annual Report and Accounts 2021/22**

Naomi Hayes (Finance Graduate - Brent Council) introduced the report, which provided an update on the Pension Fund Annual Accounts for the year ended 31 March 2022. The Committee were advised that the latest Statement of Accounts and Annual Report (attached as Appendix 1 to the report) contained minor presentational and disclosure changes from those presented at the previous meeting in July 2022 with the main audit fieldwork now substantially completed.

Naomi Hayes then presented a more detailed overview, with Members noting:

- The Brent Pension Fund Audit Findings Report 2021/22 (attached as Appendix 2 to the report) set out the anticipated results of the final audit being undertaken by Grant Thornton as the Council's External Auditors. Based on

the work undertaken to date, Members were advised that Grant Thornton were intending to give an unqualified opinion on the Pension Fund accounts which had been reported to the Audit and Standards Advisory Committee on 29 September 2022.

- The high-level overview of the annual report, as summarised below:
 - During 2021/22, the value of the Pension Fund's investments had increased to £1,128m (2020/21 £1,032m). This was due to the strong performance in particular from the Fund's global and UK holdings as the recovery from the pandemic continued.
 - Total contributions received from employers and employees were £64m for the year, an increase on the previous year's £61m.
 - Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £47m, an increase on the previous year's £42m.
 - As in 2020/21, the Council was in a positive cash-flow position as its contributions exceeded its outgoings to members.

Members were advised that the next step in the process involved sending the draft Pension Fund Annual Report to Grant Thornton for review. This included the Fund's Investment Strategy, Pensions Administration Strategy, Funding Strategy Statement and Communications Policy Statement. The Annual Report would then need to be published on or before the 1 December, following completion of the audit process.

The Chair thanked Naomi Hayes for the report and members were then invited to ask questions, with the responses summarised below:

- The Committee were pleased to note that the use of the dispute resolution procedure was low and whilst not a cause for concern felt it would also be useful to know the categories of complaints being raised.

As no further issues were raised it was **RESOLVED** that the Pension Fund Sub-Committee formally note and endorse:

- (1) The Draft Pension Fund Statement of Accounts included within the Annual Report.
- (2) The Brent Pension Fund Audit Findings Report 2021-22 produced by the External Auditors, Grant Thornton.
- (3) The draft Brent Pension Fund Annual Report 2021-22, for publication once finalised following completion of the audit process.

8. **2022 Valuation - Funding Strategy Statement Update**

Sawan Shah (Senior Finance Analyst, Brent Council) introduced the report, which provided an update from the Fund Actuary highlighting the key changes being considered for the 2022 Funding Strategy Statement (FSS) review being undertaken in compliance with the requirement for a formal valuation of the whole Fund to be undertaken every three years, under Regulation 62 (1) of LGPS Regulations.

In presenting the report, the Committee were advised that the key objectives of the

valuation were to:

- compare actual experience against assumptions made at the last valuation.
- value the assets and liabilities of each individual employer and the pension fund using data from the Fund's administration system and financial records.
- set employer contribution rates, including for the Council, for the next 3 years (1 April 2023 to 31 March 2026).
- review the Funding Strategy Statement (FSS) as the key governance document in terms of setting out the underlying assumptions and principles that were adopted when valuing the Fund's liabilities and setting contribution rates and also in terms of addressing the objectives of different employers within the fund and deficit recovery plans.
- perform a health check on the Fund's solvency.

Douglas Green (Hymans Robertson LLP) was then invited to detail the key changes being considered for the 2022 FSS review, which included:

- A review of the structure of the document with the existing single document being replaced with a 'core' document and 'satellite' policies.
- A review of funding assumptions for the 2022 valuation.
- A summary of work undertaken relating to climate risk.
- To update the FSS in relation to new regulations relating to employer flexibilities and exit credits.

The Committee noted that, in line with LGPS regulations, the FSS would need to be subject to formal consultation with employers. This was currently scheduled for Autumn 2022 with the final version (incorporating any amendments from comments received during the consultation period) of the FSS due to be presented to the Sub-Committee at the February 2023 meeting for approval.

The Chair thanked Hymans Robertson LLP for the report and members were then invited to ask questions, with the responses summarised below:

- In response to a query on the consultation period, Members were advised that the consultation period would last at least a month and was likely to commence in November 2022.

As no further issues were raised, it was **RESOLVED** to note the key changes for the 2022 Funding Strategy Statement (FSS) and that the draft FSS would be subject to consultation with employers, as required by LGPS Regulations in advance of it being presented to the Sub-Committee for formal ratification at its next meeting in February 2023.

9. Minutes of Pension Board

The Sub-Committee welcomed Mr David Ewart (Independent Chair - Pension Board) to the meeting to give an overview of the Board's last meeting. Members were updated that the Pension Board's role was to assist the Sub Committee in efficient management of the Fund and in monitoring service quality for scheme members. The Board's membership comprised of representation from both Scheme Members and Employers as well as Brent Council.

Regarding the July meeting, the Sub Committee were informed that the Board had reviewed their Terms of Reference along with the Risk Register for the Fund's administration service. The Board had also welcomed John Crowhurst (Operations Director, LPPA) to provide key business and performance updates in relation to administration of the service and migration to the new Universal Pension Management (UPM) IT system, which it was anticipated would be fully functional by May-June 2023.

The Chair thanked David Ewart for the update provided and with no further issues raised it was **RESOLVED** to note the minutes from the Pension Board held on 25 July 2022.

10. **Any other urgent business**

None.

11. **Exclusion of the Press and Public**

At this stage in the meeting the Chair advised that the Sub Committee would need to move into closed session to consider the final items on the agenda and it was therefore **RESOLVED** to exclude the press and public from the remainder of the meeting as the reports and appendices to be considered contained the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Access to Information Act 1972, namely:

“Information relating to the financial or business affairs of any particular person (including the Authority holding that information).”

Having passed the above resolution the live webcast was ended at this stage of the meeting.

12. **2022 Valuation - Whole Fund Results**

Rubia Jalil (Finance Analyst, Brent Council) introduced the report which updated the Committee on the initial 2022 valuation results as at 31 March 2022.

In considering the report the Committee noted that the initial valuation results (as set out in the exempt appendix to the report provided by Hymans Robertson LLP) detailed the contribution rates of the various employers for the period 2022/23 through 2024/25 taking account of the Funding Strategy Statement. The whole fund results were focussed on the overall funding level, recognising that various employers would have different funding levels based on past contribution rates and also different levels of risks, with the report presenting the funding position of the London Borough of Brent Pension Fund on the valuation date of 31 March 2022 and outlining the changes and sensitivity in funding position since the last valuation in 2019.

The committee noted the high level funding results, as detailed in section 3.4 of the report, which showed how (compared to the formal valuation in 2019) the funding position had improved based on liabilities having increased by £193m and asset values by £278m, meaning a reduction in deficit by £85m. Members were also

advised that the overall funding level had improved to 87% compared to 78% at the previous valuation and 55% at the 2016 valuation, with the increase reflecting the progress made in the overall financial health of the pension fund, higher than expected investment returns and improved data quality.

Having considered the detailed analysis provided by Hymans Robertson in relation to the initial actuarial valuation and progress in terms of the high-level valuation timetable, which remained on track, members were advised the next stage would involve Hymans Robertson (as Fund Actuary) analysing and issuing draft employer results along with the updated Funding Strategy Statement (FSS) for formal consultation, prior to the final valuation report and FSS being submitted to the Sub Committee in February 2023 for formal approval and sign off.

Having considered the issues raised in response to the update provided the Chair thanked officers and Hymans Robertson for the update and it was **RESOLVED**:

- (1) To formally note and welcome the progress made with the Fund valuation.
- (2) To note the Whole Fund results and improved funding position since the 2019 valuation.

13. **2022 Valuation - Employer Contribution Strategy**

Sawan Shah (Senior Finance Analyst, Brent Council) introduced the report, which presented an analysis from the Funds Actuary regarding the contribution rate strategy for the Council for the three years from 1 April 2023.

In considering the report, which it was noted was fully exempt from publication, members noted that review of the Contribution Rate Strategy had been based on a modelling exercise for the stabilised employers within the Fund which included Brent Council, local authority schools and most academy schools in Brent. Members were advised of the factors needing to be considered when setting contribution rates along with the need to take a balanced approach between the Fund's need to maintain prudent funding levels and the employers' need to maintain reasonably stable employer contribution rates as a means of managing any downside risk and avoid any permanent fall in asset values.

Having considered the detailed analysis of the review process undertaken by Hymans Robertson (as detailed within Appendix 1 of the report) members noted the outcome of the different contribution rate scenarios that were modelled and reviewed (which had included reference to climate change risk) and recommendations being made as a result in relation to the employer contribution rates over each of the next three years from 2023-24 to 2025-26, as detailed within section 3.15 of the report.

Having considered the issues raised in response to the update provided the Chair thanked officers and Hymans Robertson for the report and on the basis of the outcome of the review is was **RESOLVED** to approve the employer contribution rate for the next three financial years for Brent Council, as detailed within section 3.15 and Appendix 1 of the report.

14. **London CIV Update**

Rubia Jalil (Finance Analyst) introduced the report, updating the committee on recent developments regarding Brent Pension Fund investments held within the London CIV(LCIV). The update included (as detailed in Appendix 1) the quarterly investment performance review of the following investments held by Brent, namely within London CIV Emerging Market Fund; London CIV Diversified Growth Fund, London CIV Absolute Return Fund and LCIV MAC Fund along with a summary of London CIV environmental, social and governance (ESG) activity. Also included (as detailed in Appendix 2 of the report) was the LCIV quarterly investment review which included Brent's investments in the following Private Markets, namely LCIV Infrastructure Fund and LCIV Private Debt Fund along with valuation and performance data for the underlying portfolio investments and an update on pipeline investments.

As a final update members attention was drawn to the general updates provided by the London CIV (as set out in section 3 of the report) in relation to investment, fund launches and fund monitoring and operational controls.

Having considered the update provided, the Sub Committee **RESOLVED** to note the reports and updates provided by London CIV.

The meeting closed at 7.30 pm

COUNCILLOR R JOHNSON
Chair